

Limited Pork Expansion

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The pork industry has largely overcome the impacts of the 2014 PED virus. Pork producers have been disciplined in limiting expansion after record 2014 profits. As a result, pork supplies should be only modestly higher in 2016 and provide prices which cover all costs of production. However, there are some concerns for the longer-run as global meat and poultry supplies continue to expand with a weak world income base.

The industry is rapidly leaving behind the impacts of the 2014 PED virus. The number of pigs per litter has set new quarterly highs in each of the three quarters so far this year. In the most recent summer quarter, the number of pigs per litter reached an all-time high of 10.39.

The PED virus left a deficit in market hogs a year ago, but that deficit will rapidly close by the end of this year. This can be seen in the current count of market hogs compared to year-ago levels. Pigs that were 180 pounds or larger on September 1 were up ten percent. While ten percent higher is a large increase, it is a reflection of the deficit of market hogs one year ago. The number of market hogs weighing 120 to 179 pounds that will come to market in October and early November was up eight percent, but the number of 50 to 119 pound pigs that will come to market from late November to early January was up only three percent. Finally the under 50 pound pigs that will be the foundation of the first quarter 2016 supplies were down modestly.

In USDA's September Hogs and Pigs report, producers indicated that they had expanded the breeding herd by just one percent. In addition they were going to decrease fall farrowings by two percent and winter farrowings by one percent.

Pork supplies are expected to be up four percent in the final quarter of 2015 with a combination of five percent more hogs and one percent lower weights. For 2015, pork supplies are expected to be seven percent higher than supplies in 2014. Supplies for 2016 should be about one percent higher than in 2015 with the first three quarters being down one percent, unchanged, and up one percent, respectively.

Hog prices averaged near \$55 per live hundredweight for the third quarter of 2015 and are expected to drop to an average in the higher-\$40s in the final quarter. Prices are expected to average near \$50 in the winter and then move up seasonally to the mid-\$50s in the second and the third quarters of 2016. Prices in the final quarter of 2016 are anticipated to be in the mid-to-higher \$40s.

For the 2015 calendar year, hog prices are expected to average about \$51 on a live weight basis. Current projections for 2016 are for a similar average price. These prices are in sharp contrast to the \$76 record high prices of 2014 when PED reduced pork supplies.

Costs of production in both 2015 and 2016 are expected to be similar, around \$51 per hundredweight. Costs for both years are the same as the projected price, and thus at breakeven. These cost projections include costs for full depreciation and a normal rate of return for all capital and labor. Therefore, breakeven means all costs are covered.

After the record profits of 2014, there has been concern that the industry would over-expand. At this point that concern has not developed with supply and demand anticipated to be in balance for the coming 12 months. This also serves as a warning to the industry to make sure that further expansion plans remain moderate.

There seem to be growing threats in the future for the meats sector. Those include continued expansion of total meat supplies into 2016 and 2017 with rapid expansion of poultry and increased beef supplies. The large drop in finished cattle prices in recent weeks suggest that retail beef prices could begin to drop this fall and provide added competition for pork. In the longer run, beef supplies will continue to expand for multiple years. Potential weakness of meat and poultry exports is also a concern with slowing world economic growth and a strong U.S. dollar.

Feed prices will remain low for the next 9 months due to strong yields for 2014 and 2015 crops and weakened exports. Animal product producers will want to take advantage of harvest price lows this fall. However, longer-term, managers need to remain aware that low feed prices are not guaranteed if weather should turn more adverse in some important growing areas.